23 January 2024

Watkin Jones plc
(the 'Group')

FY 2023 Results

Well positioned to capitalise on a market recovery

The Group announces its annual results for the year ended 30 September 2023 ('FY23'):

	Adjusted Results [1]			Statutory Results		
	FY23	FY22	Change (%)	**FY23**	FY22	Change (%)
Revenue	**£413.2m**	**£407.1m**	1.5%	**£413.2m**	**£407.1m**	1.5%
Gross profit	**£34.9m**	**£67.6m**	(48.4)%	**£34.9m**	**£67.6m**	(48.4)%
Operating profit/(loss)	**£0.2m**	**£54.7m**	(99.6)%	**£(38.0)m**	**£24.3m**	(256.4)%
(Loss)/profit before tax	**£(2.9)m**	**£48.8m**	(105.9)%	**£(42.5)m**	**£18.4m**	(331.0)%
Basic (loss)/earnings per share	**(0.6)p**	**14.8p**	(104.1)%	**(12.7)p**	**5.2p**	(344.2)%
Dividend per share	**1.4p**	**7.4p**	(81.1)%	**1.4p**	**7.4p**	(81.1)%
Adjusted net cash[2]	**£43.9m**	**£82.6m**	(46.9)%			

(1) For FY23 Adjusted Operating profit, Adjusted Loss before tax and Adjusted Basic Loss per share are calculated before the impact of the exceptional charge of £35.0 million for the further costs of building safety remedial works and restructuring costs of £3.1 million

(2) Adjusted net cash is stated after deducting interest bearing loans and borrowings, but before deducting IFRS 16 operating lease liabilities of £45.2 million at 30 September 2023 (30 September 2022: £49.1 million)

Key Highlights

- Revenue of £413.2 million from our previously sold developments on site and two forward sales
- Adjusted operating profit of £0.2 million, reflecting low levels of forward sale market activity, together with:
  - lower margins across certain in-build schemes as anticipated, together with additional site-specific costs related to accelerated completions on two schemes and a third-party contractor insolvency
  - £4.6 million book loss on the sale of three PRS assets
  - impairment charge of £5.5 million on our non-core land bank and certain pipeline assets which are no longer economically viable
- Exceptional charge in the year of £38.1 million
  - £35.0 million further provision for building safety remedial works. Costs expect to be incurred over a period of up to five years
  - £3.1 million one-off restructuring costs associated with realignment of the Group's cost base, delivering c.£4.0 million of annualised run rate savings
- End year with c.£500 million of contractually secure forward sold revenue
- Gross and adjusted net cash balance of £72.4 million and £43.9 million respectively, reflecting strong cash collections in the later part of the year and proceeds from non-core asset sales
- The Board has decided not to recommend a final dividend in respect of FY23 given the uncertain market backdrop but remains committed to its progressive dividend policy as earnings recover

Outlook: FY24

- Current secured revenue from previously sold developments, on site, of c.£300 million, covering FY24 cost base
- Forward fund market showing early signs of recovery as interest rates stabilise
- All current development schemes on track, supported by continuing moderation in build cost inflation

- Guidance for FY24 adjusted operating profit of £15-20 million unchanged.

Outlook: Medium term

- Market leading business operating in the most attractive segments of the UK residential for rent market, where we continue to see strong tenant demand and rental growth
- Significant pent up investor demand and growing allocations for high quality assets
- Secured development pipeline of £1.5 billion (estimated future revenue):
    - £0.5 billion forward sold; £0.3 billion secured with planning; £0.7 billion in planning (of which £0.1 billion secured since the year end)
- Currently in exclusivity on a further £0.4 billion of land opportunities (subject to planning)
- Partnership track record, delivery capability and Fresh are material differentiators
- Strategic focus on extracting more value from the Group's existing capabilities, through Development Partnerships and Refresh (refurbishment / repurposing development opportunities).

Alex Pease, Chief Executive Officer of Watkin Jones, said "Significant cost inflation and volatility in real estate funding markets meant that FY23 represented a period of unprecedented challenge for the business. However, I am pleased that against this backdrop the Group demonstrated resilience and agility, taking a number of important actions operationally.

Whilst funding conditions remain difficult, the outlook is gradually improving and the strong asset performance in PBSA and BTR sectors gives me confidence in the longer-term market recovery and return to growth. In the near term, we remain focussed on driving improvements to the productivity and efficiency of the business, as well as looking at opportunities to extract more value from our sector expertise and end-to-end capabilities.

Watkin Jones continues to have a market-leading team and offering to the residential for rent sectors and we are taking the right steps to ensure we are well placed to capitalise on this, as conditions improve."

Analyst meeting

A meeting for analysts will be held in person at 11.00am today, Tuesday 23rd January 2024, at Buchanan, 107 Cheapside, London EC2V 6DN. A copy of the Full Year results presentation is available at the Group's website: http://www.watkinjonesplc.com

An audio webcast of the meeting with analysts will be available after 12pm today:
https://stream.buchanan.uk.com/broadcast/65952d93b012a6d30b474616

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Notes to Editors

Watkin Jones is the UK's leading developer and manager of residential for rent, with a focus on the build to rent, student accommodation and affordable housing sectors. The Group has strong relationships with institutional investors, and a reputation for successful, on-time-delivery of high quality developments. Since 1999, Watkin Jones has delivered 48,000 student beds across 143 sites, making it a key player and leader in the UK purpose-built student accommodation market, and is increasingly expanding its operations into the build to rent sector. In addition, Fresh, the Group's specialist accommodation management business, manages over 22,000 student beds and build to rent apartments on behalf of its institutional clients. Watkin Jones has also been responsible for over 80 residential developments, ranging from starter homes to executive housing and apartments.

The Group's competitive advantage lies in its experienced management team and capital-light business model, which enables it to offer an end-to-end solution for investors, delivered entirely in-house with minimal reliance on third parties, across the entire life cycle of an asset.

Watkin Jones was admitted to trading on AIM in March 2016 with the ticker WJG.L. For additional information please visit www.watkinjonesplc.com

CHIEF EXECUTIVE OFFICER'S REVIEW

This has been a challenging year and while we performed well operationally, tough conditions in the investment market combined with build cost inflation, a third-party contractor liquidation and acceleration costs to complete certain developments contributed to weaker financial results.

Although we faced severe headwinds this year, we remain a resilient business with leadership positions in highly attractive markets. The supply and demand dynamics in both BTR and PBSA are more attractive than ever, with a genuine shortage of accommodation. This is resulting in very high occupancy levels, good letting and retention rates, and robust rental growth. At the same time, economic conditions and planning challenges mean less stock is being delivered. In PBSA for example, only 12,000 new beds have been delivered for 2023/24, well down on previous years.

Higher interest rates and economic uncertainty resulted in the investment market being effectively closed for much of the year but there is still significant institutional capital waiting to be allocated to residential for rent. Asset values have remained relatively steady, as higher rental income has compensated for softer yields. Combined with less new stock coming through, these factors should help the investment market gradually rebound.

Performance

We delivered a good operational performance in FY23, completing four schemes to our high quality standards. One further development completed following the year end. We also continued to acquire sites and progress them through planning.

Build cost inflation was a significant challenge. Although it has eased as the year progressed, several projects completing this year had been priced and forward sold prior to the unprecedented build cost inflation and this caused erosion of margin. We worked in partnership with our supply chain to manage this and limit its impact on our developments as far as possible. In addition, we incurred additional costs at our co-living scheme in Exeter, where the main contractor went into liquidation during 2023. This required us to step in, which our self-build expertise enabled us to do quickly and effectively. The scheme reached practical completion in September 2023. We also decided to exercise caution in the prevailing market conditions and not accelerate the development of some pipeline assets.

Overall, revenue was £413.2 million (FY22: £407.1 million), up 1.5%. Gross profit declined to £34.9 million (FY22: £67.6 million), while adjusted operating profit before exceptional items was £0.2 million (FY22: £54.7 million), reflecting the reduction in forward sales, lower margins across certain in-build schemes as anticipated, the impairment of our non-core land bank and certain pipeline assets and the book loss on disposal of the non-core private rented sector assets. At the year end, we had adjusted net cash of £43.9 million and total cash and available facilities of £103.6 million, meaning the Group remains soundly financed. We were also pleased to extend the maturity of our bank facility to November 2025.

BTR was the largest contributor to our results, reflecting progress with the developments under construction and modest revenues from a forward sale. PBSA saw revenue decline, due to the number of sites in-build and the stage of their development, and the completion of only one forward sale in the year. Fresh, our accommodation management business, performed well, with higher revenues and an attractive gross margin.

Strategy

Our strategic focus is on growing our presence in residential to rent, driving operational efficiency and ensuring we are a responsible business. While our strategic direction is the right one, we also recognise the need to adapt it to the conditions we face.

We are therefore looking at every aspect of our business to ensure we optimise our margin and performance. For example, we have further improved the way we manage procurement to maximise buying benefits, revamped our design guides for schemes to ensure efficiency and consistency, and continued to build the connections between our teams to increase operational effectiveness.

We are also determined to be well positioned to rebuild our pipeline when market conditions turn, as we did successfully coming out of both the global financial crisis and the pandemic. We will be very disciplined in doing so and expect to see good opportunities to acquire sites as land prices reduce. Alongside securing sites on our usual subject-to-planning basis, we will explore the potential to partner with capital providers on land with existing planning. This has the dual advantage of lower risk and increased speed for bringing developments forward.

The two forward sales we completed in the year demonstrated our ability to act quickly in the brief periods the market was open, but we also want to be entrepreneurial and creative in our approach to the investment market. This means looking at more innovative transaction structures, while still delivering a high return on capital employed.

More broadly, we see potential in opening up additional revenue streams. Examples include helping our institutional clients to refurbish their older housing stock to meet residents' needs, while also making the buildings safer and more environmentally efficient. This has the benefit of generating revenue without additional investment, and leveraging our existing skill set.

Sustainability

We have continued to successfully implement our Future Foundations sustainability strategy, which sets out our approach to our people, the places we build and our impact on the planet.

We look to maintain a positive culture and our people approach is informed by our employee engagement survey. During the year, we focused on providing better training and development opportunities, recognising people's efforts and celebrating inspirational performance. Our Star Awards are one such initiative. These reward exceptional contributions from colleagues across a range of categories. I am also pleased that we have maintained our exceptional health and safety record, with an incident rate of just 4.9% of the industry average in FY23.

The places we develop continue to evolve. We are designing buildings to higher environmental standards than ever before, and we have evolved our specification both to standardise our products and to take account of feedback from institutional clients and residents. In particular, the feedback we receive from Fresh residents is an important advantage for us.

From an environmental perspective, we are on a journey to net zero and have further refined our understanding of our carbon emissions during the year. We have published our assessment of the climate-related risks and opportunities facing the Company and our climate-related financial disclosure statement can be found within the Watkin Jones plc Annual Report for the year ended 30 September 2023.

Building safety

It goes without saying that the safety of our buildings is paramount. We increased our building safety provision during the year, following the evolution of government initiatives, greater access to properties identified as being at risk, the receipt of fire safety reports, related cost estimates, and the evolution and conclusion of legal proceedings and settlement and contribution agreements with building owners.

The remedial works for properties included in our building safety provision are progressing well. We remain committed to working collaboratively with building owners and leaseholders to address issues with these legacy buildings.

Outlook

We continue to operate in the most attractive segments of the residential for rent market, with strong tenant demand and rental growth in our core PBSA and BTR sectors.

In the short term, current secured revenue of circa £300 million from previously sold developments is expected to cover our FY24 cost base. All developments under construction are on track, supported by continuing moderation in build cost inflation. Our secured development pipeline stands at £1.5 billion.

Encouragingly, the forward fund market is showing early signs of recovery as interest rates stabilise. Should interest rates trend downwards, we anticipate that there will be growing investor demand and capital allocations for high quality assets in our sectors.

While we remain focused on our core forward fund model, we will look at potential opportunities to diversify our revenue streams through development partnerships and refurbishment opportunities for institutional clients. This should generate revenue and margin without requiring significant capital investment.

Finally, on a personal note, I would like to thank the Board for giving me the opportunity to lead this Company. I have worked at Watkin Jones for 13 years and can confidently say that it is a fantastic business with extremely dedicated and talented colleagues. I am incredibly proud to be its Chief Executive Officer.

I would also like to thank my colleagues for their support, both to me personally as I have taken on my new role, and to the business during what has been a challenging year. I am confident that we are well placed to take advantage of a recovery once markets improve.

Alex Pease
Chief Executive Officer

23 January 2024

OPERATIONAL REVIEW

Build To Rent

	BTR apartments by estimated year of practical completion				
	Total pipeline	**FY24**	**FY25**	**FY26**	**FY27**
Forward sold	**2,907**	672	809	1,110	316
Forward sales in the market	**70**	—	—	70	—
Sites secured subject to planning	**625**	—	—	230	395
Total secured	**3,602**	672	809	1,410	711

Total revenues for the year were £207.7 million (FY22: £191.2 million), up 8.6%.

Revenues included the build-out of our forward sold developments in Hove, Lewisham, Birmingham and Leatherhead, and a development partnership scheme in Cardiff. Subsequent to the year end Hove reached practical completion and we handed over one block at Lewisham to the client.

We also forward sold a development in Belfast, which includes 627 BTR units and 81 social rent affordable homes. Construction on this development will start meaningfully in FY24 and the contribution to FY23 was restricted to a small profit on the land transaction, as expected.

In FY23, we did not acquire or secure planning on any sites. The current secured development pipeline for BTR is shown in the table above.

The secured development pipeline has an estimated future revenue value to us of c.£0.6 billion (FY22: £1.0 billion), of which c.£447 million is currently forward sold (FY22: £517 million).

Gross profit for the year was £19.8 million (FY22: £32.8 million), a decrease of 39.6%. The gross margin was 9.5% (FY22: 17.2%), reflecting the lower margin of the schemes we forward sold towards the end of FY22 and the impact of build cost inflation.

The affordable housing business, which relates to single-family homes, achieved 36 sales completions (FY22: 40) and delivered revenue of £19.6 million (FY22: £14.5 million) and gross profit of £1.9 million (FY22: £1.9 million), as we continued to progress our developments in Crewe and Preston.

Student Accommodation

	PBSA beds by estimated year of practical completion				
	Total pipeline	**FY24**	**FY25**	**FY26**	**FY27 onwards**
Forward sold	**1,601**	1,601	—	—	—
Forward sales in the market	**1,510**	—	260	727	523
Sites secured subject to planning	**2,919**	—	—	—	2,919
Total secured	**6,030**	1,601	260	727	3,442

Revenues from PBSA were £175.7 million (FY22: £180.0 million), down 2.4%. During the year, we delivered four developments, comprising student schemes in Edinburgh, Colchester and Swansea, and a 133-unit co-living scheme in Exeter.

We also forward sold one development, an 819-bed scheme in Bedminster, Bristol, for delivery in FY24. The development is in a key regeneration area and has strong environmental credentials, with a target BREEAM rating of Excellent.

Gross profit for the year was £11.4 million (FY22: £26.4 million), resulting in a gross margin of 6.5% (FY22: 14.7%). The reduction in margin was in part due to additional build costs on the Exeter scheme, where the third-party main contractor went into liquidation, and acceleration costs required to achieve completion on certain schemes. In Exeter our self-build capabilities enabled us to step in quickly and effectively, to minimise the delay and deliver to the revised timetable agreed with the client. Build cost inflation also reduced the margin on some schemes during the year.

In FY23, we acquired 2 sites and secured planning on 2 sites, with the potential to deliver around 590 beds. The current secured development pipeline for PBSA is shown in the table above.

The secured development pipeline has an estimated future revenue value to us of c.£0.9 billion (FY22: £1.0 billion), of which c.£60 million is currently forward sold (FY22: £130 million).

Accommodation Management

Key statistics
Student beds and BTR apartments under management
23,064
FY23

22,896
FY22

Net promoter scores
+35
FY23

+34
FY22

Revenues in Fresh were £9.5 million (FY22: £9.1 million). The growth reflects increased variable fee income related to higher student occupancy, as well as the number of student beds and BTR apartments under management at the start of FY23 (22,896) compared to FY22 (22,155).

Gross profit rose to £6.0 million (FY22: £5.9 million), at a margin of 63.2% (FY22: 64.8%).

Fresh took on two new student schemes with 500 beds in the year and finished FY23 with 23,064 units under management across 71 schemes. However, 6,800 student beds left Fresh management in October 2023, to be managed in-house by clients. These losses are partially offset by new contract wins, leaving Fresh with approximately 19,000 units under management across 71 schemes at the start of FY24.

During the year, Fresh introduced a new delivery model to enhance its focus on residents and clients, ensure clear accountability within the organisation, support the ability to scale, and offer career paths to retain talent. Fresh also continued to develop the Yardi property management software introduced in the prior year, in particular to refine it for the student market.

The business has developed its branding, putting in place the Fresh Student and Fresh Renting brands, to support online searches and reflect the differing needs of the two sectors. Fresh has also created a white-label offering, which is seeing strong interest from clients and allows, for example, the development of branding for individual buildings for BTR clients.

Fresh has continued to support its student residents, focusing on the Be wellbeing programme. This is reflected in its record net promoter score of +35 (FY22: +34) and the award of Platinum status in the Global Student Living Index and winning Best Student Private Housing Provider for the third year in a row. The Be wellbeing programme won the prestigious Health and Wellbeing Award at the Property Week Student Housing Awards.

FINANCIAL REVIEW

Revenue
Revenue of £413.2 million was delivered in the year, increasing 1.5% from £407.1 million in FY22, despite the subdued market conditions for forward sales. Our position was however cushioned by secured revenues from forward sales completed in prior years.

BTR development revenues grew by 8.6% to £207.7 million (FY22: £191.2 million), with revenues from our existing portfolio of developments supplemented by the forward sale of our new project at Titanic Quarter, Belfast during the year.

Revenues from our PBSA development business were £175.7 million (FY22: £180.0 million), a decrease of 2.4%, with four schemes completed and our new development in Bedminster forward sold during the year. PBSA revenues also include the rental income from our four leased student accommodation assets. The rental income on these was £9.0 million (FY22: £13.6 million), a decrease of 33.8%, with the impact of the prior year disposal of two assets offset by continued strong student occupancy at our remaining sites.

The Affordable Homes business delivered revenues of £19.6 million, up 35.2% on the £14.5 million recorded in FY22 as plots reach completion at both our Preston and Crewe developments.

Fresh, our Accommodation Management business, achieved record revenues of £9.5 million (FY22: £9.1 million), with further increases to occupancy levels across its portfolio.

Operating profit

Gross profit for the year was £34.9 million (FY22: £67.6 million), a decrease of 48.4%, both as a result of trading performance described below and the impact of impairments to land assets in the period of £5.5 million. We re-assessed the carrying value of our non-core land bank as well as certain pipeline assets on the balance sheet, where early stage development opportunities were strategically aborted in response to volatile market conditions. This resulted in a decreased gross margin of 8.4% (FY22: 16.6%).

Both our BTR and PBSA segments have been impacted by the reduction in forward sales compared to the prior year, supply chain pressures and build cost inflation, and acceleration costs required to achieve completion on certain of our schemes.

BTR development gross profit decreased by 39.6% in the year to £19.8 million (FY22: £32.8 million), with gross margin softening to 9.5% (FY22: 17.2%). Gross profit from PBSA development was £11.4 million (FY22: £26.4 million), with gross margin of 6.5% (FY22: 14.7%). The decrease reflected incremental costs at our scheme in Exeter due to the main contractor going into liquidation, as well as acceleration costs to physically complete a number of schemes in the summer.

In Affordable Homes, gross profit was £1.9 million (FY22: £1.9 million), with a reduced gross margin of 9.7% (FY22: 13.2%) reflecting the impact of build cost inflation and an increase in the sales mix of affordable units.

Fresh generated a gross profit of £6.0 million (FY22: £5.9 million) with the gross margin remaining broadly flat at 63.1% (FY22: 64.8%).

During the year, we completed the disposal of a portfolio of non-core private rental sector (PRS) assets on an accelerated timetable ahead of the completion of remedial works, to allow the business to focus on its strategic priorities.

This disposal resulted in gross anticipated cash receipts of £17.2 million before repayment of associated borrowings, of which £1.9 million is deferred to next year. A book loss on disposal of £4.6 million was recorded within administrative expenses.

Administrative expenses increased to £72.8 million (FY22: £43.4 million) with the effect of this disposal and exceptional items recorded in the year.

Excluding the impact of the above loss on disposal and the profit on disposal of investment properties in the year ended 30 September 2022, administrative expenses before exceptional items decreased by 3.5% to £30.1 million (FY22: £31.2 million), reflecting the impact of the cost out programme implemented during the year.

Adjusted operating profit of £0.2 million (FY22: £54.7 million) reflects the reduction in new forward sales across the BTR and PBSA segments, and both the impairment of land assets and the loss on disposal of the PRS assets. The Group's operating loss was £38.0 million (FY22: operating profit of £24.3 million) including the impact of exceptional items in the year.

Exceptional items

An exceptional provision of £35.0 million has been made for remedial costs associated with building safety matters, on which further details are included in note 4. This is in addition to provisions made in prior years as a consequence of:

- the introduction of secondary legislation and the evolution of government initiatives during 2023, bringing a further four properties into the provision.
- further access to and intrusive surveys conducted on relevant buildings, the receipt of fire safety reports and related cost estimates, alongside further experience of completing the works.
- the evolution and conclusion of legal proceedings, settlement and contribution agreements with building owners during the year.

This is a highly complex area with significant estimates in respect of the cost of remedial works, the quantum of any legal expenditure associated with the defence of the Group's position in this regard, and the extent of those properties within the scope of the applicable government guidance and legislation, which continue to evolve. All our buildings were signed off by approved inspectors as compliant with the relevant building regulations at the time of completion. The investigation of the works required at many of the buildings is at an early stage and therefore it is possible that these estimates may change over time or if government legislation and regulation further evolves.

One of the areas we also looked at during the year was management of the Group's cost base. This resulted in a reduction in headcount and £3.1 million of one-off restructuring costs in the year.

Finance costs
Finance costs for the year were £5.0 million (FY22: £6.0 million). These costs relate to the finance cost of capitalised leases under IFRS 16, which totalled £1.8 million (FY22: £4.5 million), which decreased following the disposal of the Dunaskin and New Bridewell student leasehold properties in the prior year, and the impact of the exceptional charge of £1.5 million (FY22: £nil) for the unwind of the discounting of the building safety provision made in prior periods. The balance of our finance costs represents the fees associated with the availability of our revolving credit facility (RCF) with HSBC and the interest cost of the loans previously held with Svenska Handelsbanken AB.

Loss before tax
Loss before tax for the year was
£42.5 million (FY22: profit before tax of £18.4 million). Adjusted loss before tax, which excludes the impact of the exceptional items, was £2.9 million (FY22: adjusted profit before tax of £48.8 million).

Taxation
The corporation tax credit was £9.9 million (FY22: charge of £5.0 million). The effective tax rate of 23% (FY22: 27%) was more than the standard UK corporation tax rate of 22% for the year, primarily as a result of the remeasurement of deferred tax assets to the future UK corporation tax rate of 25% which will be effective when those assets are expected to unwind.

Information on our tax strategy can be found in the Investor section of our website, **watkinjonesplc.com**.

Earnings per share
Basic earnings per share from continuing operations for the year was a loss of 12.7 pence (FY22: earnings of 5.2 pence). Adjusted basic earnings per share, which excludes the impact of the exceptional items, was a loss of 0.6 pence (FY22: earnings of 14.8 pence).

Dividends
The Board proposed an interim dividend of 1.4 pence per share (FY22: 2.9 pence per share) which was paid in June 2023.

Since then, we have continued to face into a very challenging end market. As such, the Board decided that there will be no further dividend paid in respect of FY23. This gives a total dividend for the year of 1.4 pence per share (FY22: 7.4 pence per share).

At 30 September 2023, the Company had distributable reserves of £41.1 million available to pay dividends.

EBITDA

EBITDA, which is calculated as set out below, was a loss of £21.0 million (FY22: profit of £14.5 million) after the inclusion of exceptional items of £38.1 million (FY22: £30.4 million). Adjusted EBITDA, which excludes exceptional items, was £17.2 million (FY22: £44.8 million), with an adjusted EBITDA margin of 4.2% (FY22: 11.0%).

Return on capital employed

The return on capital employed (ROCE) for the year, calculated as set out below, was impacted by the lower operating profit in the period at 0.2% (FY22: 63.1%).

Statement of financial position

At 30 September 2023, non-current assets amounted to £60.2 million (FY22: £49.6 million), with the most significant item being the carrying value of the leased student accommodation investment properties amounting to £24.2 million (FY22: £27.3 million).

The deferred tax asset, predominantly relating to carried forward losses from the year ended 30 September 2023, amounted to £12.1 million (FY22: £1.9 million) and is expected to be fully utilised in the short to medium term.

Right-of-use assets relating to office and car leases amounted to £5.3 million (FY22: £4.7 million). Intangible assets relating to Fresh amounted to £11.6 million (FY22: £12.2 million) and were reduced by the amortisation charge of £0.6 million in the year.

Reimbursement assets related to agreed client contributions towards building safety remedial costs of £10.9m have been recognised in the period (FY22: £nil).

Inventory and work in progress was £123.5 million (FY22: £147.1 million), with the decrease reflecting the forward sale during the period of our Bedminster PBSA site and the disposal of our PRS assets, offset by investment in new land sites for development in Guildford and Bristol.

Contract assets increased significantly in the year to £66.4 million (FY22: £50.8 million). These mainly relate to the final payment balances which are received on completion of developments in build. The increase in the year reflects the increased contributions from BTR developments which typically have a longer construction period and don’t reach practical completion dates just prior to the Group’s year end as PBSA developments typically do. Contract liabilities reduced by £3.6 million during the year to £1.5 million.

The Building Safety provision of £65.6 million is predominantly classified as non-current liabilities, based on our anticipated expenditure over the next five years. The increase in the provision of £32.2 million includes an additional exceptional provision made in the year (considered in the review of ‘Exceptional items’ above) and the utilisation of the brought-forward provision.

Interest-bearing loans and borrowings stood at £28.5 million at 30 September 2023 (FY22: 28.3 million).

Cash and net debt

	FY23 **£m**	FY22 £m
Operating profit before exceptional items	**0.2**	54.7

Profit on disposal of fixed assets	**(0.3)**	(20.9)
Depreciation and amortisation	**11.5**	8.4
Increase in working capital	**(28.6)**	(61.7)
Finance costs paid	**(2.8)**	(5.8)
Tax paid	**(11.5)**	(1.6)
Net cash outflow from operating activities	**(31.5)**	(26.9)
Sale of fixed assets	**15.0**	11.6
Dividends paid	**(15.1)**	(21.8)
Payment of lease liabilities	**(6.8)**	(4.7)
Cash flow from borrowings	**—**	16.3
Decrease in cash	**(38.4)**	(25.5)
Cash at beginning of year	**110.8**	136.3
Cash at end of year	**72.4**	110.8
Less: borrowings	**(28.5)**	(28.2)
Net cash before deducting lease liabilities	**43.9**	82.6
Less: lease liabilities	**(45.2)**	(49.1)
Net (debt)/cash	**(1.3)**	33.5

Total cash and available facilities

	FY23 **£m**	FY22 £m
Cash and cash equivalents	**72.4**	110.8
Revolving credit facility (RCF)	**50.0**	100.0
Drawn balance on RCF	**(28.8)**	(24.8)
Overdraft	**10.0**	10.0
Total cash and available facilities	**103.6**	196.0

Lease liabilities arising from the adoption of IFRS 16 ‘Leases’ in the prior year were reduced by £3.9 million to £45.2 million (FY22: £49.1 million), reflecting capital repayments made in the year offset by indexed rent increases on our student leased investment properties.

At the year end, we had a cash balance of £72.4 million and loans of £28.5 million, resulting in a net cash position of £43.9 million. At 30 September 2022, we had a cash balance of £110.8 million and loans of £28.2 million, resulting in a net cash position of £82.6 million.

Net cash balances are stated before deducting the lease liabilities of £45.2 million (30 September 2022: £49.1 million), arising as a result of applying IFRS 16.

The lease liabilities relate primarily to several historic student accommodation sale and leaseback properties, for which the future lease rental liabilities are expected to be substantially covered by the future net student rental incomes to be received.

In a typical year, the Group’s cash balance peaks around the year end, as we receive the final payments on student accommodation developments completing ahead of the new academic year, as well as initial proceeds from the latest forward sales.

The Group is then a net user of cash until the following year end, as a result of outflows such as tax and dividend payments, overhead costs and land purchases. However, in FY24, as a result of the physical completions of some of our BTR developments, we will be receiving these final payments throughout the year and therefore the profile will be more evenly spread than in previous years.

The cash balance at the year end is still important for funding our day-to-day cash requirements and for putting the Group in a strong position when bidding for new sites.

The Group's net cash outflow from operating activities for the year was £31.5 million (FY22: outflow of £26.9 million), reflecting investment in new development sites and the stages of development of sites under construction.

Net finance costs paid totalled £2.8 million (FY22: £5.8 million), including the finance charges on the capitalised lease liabilities of £1.8 million (FY22: £4.5 million), which substantially reduced following the disposal of certain leased student accommodation investment properties in the prior year.

Dividends paid in the year totalled £15.1 million (FY22: £21.8 million). Dividends paid in FY23 comprised the final dividend for FY22 and the interim dividend for FY23.

Bank facilities
During the year the Group extended its RCF with HSBC for a further six months to run to November 2025 in order to allow the borrowings and forward sales markets time to stabilise following recent volatility. It has a maximum available facility of £50.0 million (30 September 2022: £100.0 million), of which £28.8 million was drawn against the facility at the year end (30 September 2022: £24.8 million), giving headroom of £21.2 million. This facility can be accessed to fund land acquisitions and development works. The total facility was reduced during the year, given the anticipated volume of land acquisitions, and to benefit from lower non-utilisation fees.

We also have an undrawn overdraft facility of £10.0 million. Total cash and available facilities at 30 September 2023 therefore stood at £103.6 million (FY22: £196.0 million).

On disposal of the PRS assets during the year ended 30 September 2023, the Group repaid its associated loan facilities with Svenska Handelsbanken AB. The outstanding balance at the year end was therefore £nil (30 September 2022: £4.0 million).

Going concern
We have undertaken a thorough review of the Group's ability to continue to trade as a going concern for the period to 31 January 2025. The basis of the review and an analysis of the downside risks is set out in note 2.1.

Alternative performance measures (APMs)
We use APMs as part of our financial reporting, alongside statutory reporting measures. These APMs are provided for the following reasons:

1) to present users of the annual report with a clear view of what we consider to be the results of our underlying operations, enabling consistent comparisons over time and making it easier for users of the report to identify trends;
2) to provide additional information to users of the annual report about our financial performance or position;
3) to show the performance measures used by the Board in determining dividend payments; and
4) to show the performance measures that are linked to remuneration for the Executive Directors.

The following APMs appear in this annual report

		Reconciliation		
	Reason for use		**FY23 £'000**	FY22 £'000
Adjusted operating profit	1	Operating (loss)/profit	**(37,970)**	24,319

		Add: exceptional items in administrative expenses	**38,140**	30,365
		Adjusted operating profit	**170**	54,684
Adjusted (loss)/profit before tax	1,4	(Loss)/profit before tax	**(42,459)**	18,393
		Add: exceptional items	**39,598**	30,365
		Adjusted (loss)/profit before tax	**(2,861)**	48,758
Adjusted basic (loss)/earnings per share	1,3,4	(Loss)/profit after tax	**(32,547)**	13,414
		Add: exceptional items	**39,598**	30,365
		Less: tax on exceptional items	**(8,716)**	(5,769)
		Adjusted (loss)/profit after tax	**(1,665)**	38,010
		Weighted average number of shares	**256,434,903**	256,385,882
		Adjusted basic (loss)/earnings per share	**(0.649) pence**	14.825 pence
EBITDA	1	**Operating (loss)/profit**	**(37,970)**	24,319
		Add: share of loss in joint ventures	**(13)**	(16)
		Add: impairment of land assets	**5,496**	—
		Add: loss/(profit) on disposal of non-core assets	4,584	(18,253)
		Add: depreciation	**6,388**	7,852
		Add: amortisation	**559**	559
		EBITDA	**(20,956)**	14,461
Adjusted EBITDA	1	EBITDA	**(20,956)**	14,461
		Add: exceptional items in administrative expenses	**38,140**	30,365
		Adjusted EBITDA	**17,184**	44,826
Adjusted net cash	2	Net cash/(debt)	**(1,294)**	33,454
		Add: lease liabilities	**45,195**	49,099
		Adjusted net cash	**43,901**	82,553
Return on capital employed	1,2	**Adjusted operating profit**	**170**	54,684
		Net assets at 30 September	**130,005**	176,953
		Less: adjusted net cash	**(43,901)**	(82,553)
		Less: intangible assets	**(11,606)**	(12,165)
		Less: investment property (leased)	**(24,240)**	(27,331)
		Less: right-of-use assets	**(5,276)**	(4,738)
		Add: lease liabilities	**45,195**	49,099
		Adjusted net assets at 30 September	**90,177**	99,265
		Adjusted net assets at 1 October	**99,265**	73,972
		Average adjusted net assets	**94,721**	86,619
		Return on capital employed	**0.2%**	63.1%

Sarah Sergeant
Chief Financial Officer
23 January 2024

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September 2023

		Year ended 30 September 2023			Year ended 30 September 2022		
	Notes	**Exceptional items £'000**	**Before exceptional items £'000**	**Total £'000**	Exceptional items £'000	Before exceptional items £'000	Total £'000
Continuing operations							
Revenue	5	**413,236**	**—**	**413,236**	407,076	—	407,076
Cost of sales		**(378,377)**	**—**	**(378,377)**	(339,450)	—	(339,450)
Gross profit		**34,859**	**—**	**34,859**	67,626	—	67,626
Administrative expenses	6	**(34,689)**	**(38,140)**	**(72,829)**	(12,942)	(30,365)	(43,407)
Operating profit/(loss)		**170**	**(38,140)**	**(37,970)**	54,684	(30,365)	24,319
Share of loss in joint ventures		**(13)**	**—**	**(13)**	(16)	—	(16)
Finance income		**496**	**—**	**496**	72	—	72
Finance costs		**(3,514)**	**(1,458)**	**(4,972)**	(5,982)	—	(5,982)
(Loss)/profit before tax		**(2,861)**	**(39,598)**	**(42,459)**	48,758	(30,365)	18,393
Income tax credit/(expense)	8	**1,196**	**8,716**	**9,912**	(10,778)	5,769	(4,979)
(Loss)/profit for the year attributable to ordinary equity holders of the parent		**(1,665)**	**(30,882)**	**(32,547)**	37,980	(24,596)	13,414
Other comprehensive income							
That will not be reclassified to profit or loss in subsequent periods:							
Net (loss)/gain on equity instruments designated at fair value through other comprehensive income, net of tax		**(188)**	**—**	**(188)**	157	—	157
Total comprehensive (loss)/income for the year attributable to ordinary equity		**(1,853)**	**(30,882)**	**(32,735)**	38,137	(24,596)	13,571

holders of the parent							
		Pence	**Pence**	**Pence**	Pence	Pence	Pence
Earnings per share for the year attributable to ordinary equity holders of the parent							
Basic (loss)/earnings per share	9	**(0.649)**	**(12.043)**	**(12.692)**	14.825	(9.593)	5.232
Diluted (loss)/earnings per share	9	**(0.649)**	**(12.043)**	**(12.692)**	14.748	(9.543)	5.205

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 September 2023

	Notes	30 September 2023 £'000	30 September 2022 £'000
Non-current assets			
Intangible assets		**11,606**	12,165
Investment property (leased)		**24,240**	27,331
Right-of-use assets		**5,276**	4,738
Property, plant and equipment		**1,796**	2,009
Investment in joint ventures		**1**	1
Reimbursement assets		**4,007**	—
Deferred tax assets		**12,096**	1,941
Other financial assets		**1,129**	1,366
		60,151	49,551
Current assets			
Inventory and work in progress		**123,516**	147,118
Contract assets		**66,368**	50,821
Trade and other receivables		**35,104**	28,628
Reimbursement assets	11	**6,858**	—
Current tax receivable		**7,088**	—
Cash and cash equivalents		**72,431**	110,841
		311,365	337,408
Total assets		**371,516**	386,959
Current liabilities			
Trade and other payables		**(100,723)**	(89,717)
Contract liabilities		**(1,469)**	(5,052)
Interest-bearing loans and borrowings		**—**	—
Lease liabilities		**(7,567)**	(6,248)
Provisions	11	**(24,457)**	(7,713)
Current tax liabilities		**—**	(4,402)
		(134,216)	(113,132)
Non-current liabilities			
Interest-bearing loans and borrowings		**(28,530)**	(28,288)
Lease liabilities		**(37,628)**	(42,851)
Provisions	11	**(41,137)**	(25,735)
		(107,295)	(96,874)
Total liabilities		**(241,511)**	(210,006)
Net assets		**130,005**	176,953
Equity			
Share capital		**2,564**	2,564
Share premium		**84,612**	84,612
Merger reserve		**(75,383)**	(75,383)
Fair value reserve of financial assets at FVOCI		**425**	662
Share-based payment reserve		**1,407**	526
Retained earnings		**116,380**	163,972
Total equity		**130,005**	176,953

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2023

	Share capital £'000	Share premium £'000	Merger reserve £'000	Fair value reserve of financial assets at FVOCI £'000	Share-based payment reserve £'000	Retained earnings £'000	Total £'000
Balance at 30 September 2021	2,562	84,612	(75,383)	536	2,824	169,660	184,811
Profit for the year	—	—	—	—	—	13,414	13,414
Other comprehensive income	—	—	—	126	—	31	157
Total comprehensive income	—	—	—	126	—	13,445	13,571
Share-based payments	2	—	—	—	209	—	211
Recycled reserve for fully vested share-based payment schemes	—	—	—	—	(2,507)	2,507	—
Deferred tax debited directly to equity	—	—	—	—	—	141	141
Dividend paid	—	—	—	—	—	(21,781)	(21,781)
Balance at 30 September 2022	2,564	84,612	(75,383)	662	526	163,972	176,953
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(32,547)**	**(32,547)**
Other comprehensive income	**—**	**—**	**—**	**(237)**	**—**	**49**	**(188)**
Total comprehensive income	**—**	**—**	**—**	**(237)**	**—**	**(32,498)**	**(32,735)**
Share-based payments	**—**	**—**	**—**	**—**	**1,067**	**—**	**1,067**
Recycled reserve for fully vested share-based payment schemes	**—**	**—**	**—**	**—**	**(186)**	**186**	**—**
Deferred tax debited directly to equity	**—**	**—**	**—**	**—**	**—**	**(151)**	**(151)**
Dividend paid	**—**	**—**	**—**	**—**	**—**	**(15,129)**	**(15,129)**
Balance at 30 September 2023	**2,564**	**84,612**	**(75,383)**	**425**	**1,407**	**116,380**	**130,005**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 September 2023

	Notes	**Year ended 30 September 2023 £'000**	Year ended 30 September 2022 £'000
Cash flows from operating activities			
Cash outflow from operations	12	**(17,215)**	(19,592)
Interest received		**496**	72
Interest paid		**(3,315)**	(5,782)
Tax paid		**(11,466)**	(1,557)
Net cash outflow from operating activities		**(31,500)**	(26,859)
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(550)**	(660)
Proceeds on disposal of property, plant and equipment		**210**	4,341
Proceeds on disposal of right-of-use assets		**—**	7,897
Proceeds on disposal of PRS assets		**15,323**	—
Cash flow from joint venture interests		**—**	—
Net cash inflow from investing activities		**14,983**	11,578
Cash flows from financing activities			
Dividends paid	10	**(15,129)**	(21,781)
Proceeds from exercise of share options		**—**	—
Payment of principal portion of lease liabilities		**(6,806)**	(4,717)
Payment of capital element of other interest-bearing loans		**—**	(389)
Drawdown of RCF		**27,579**	20,625
Repayment of bank loans and RCF		**(27,537)**	(3,909)
Net cash outflow from financing activities		**(21,893)**	(10,171)
Net decrease in cash		**(38,410)**	(25,452)
Cash and cash equivalents at 1 October 2022 and 1 October 2021		**110,841**	136,293
Cash and cash equivalents at 30 September 2023 and 30 September 2022		**72,431**	110,841

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 September 2023

1. General information
Watkin Jones plc (the 'Company') is a public limited company incorporated in the United Kingdom under the Companies Act 2006 (registration number 9791105) and its shares are listed on the Alternative Investment Market of the London Stock Exchange. The Company is domiciled in the United Kingdom and its registered address is 12 Soho Square, London, United Kingdom, W1D 3QF.

The principal activities of the Company and its subsidiaries (collectively the 'Group') are those of property development and the management of properties for multiple residential occupation.

The consolidated financial statements for the Group for the year ended 30 September 2023 comprise the Company and its subsidiaries. The basis of preparation of the consolidated financial statements is set out in note 2 below.

2. Basis of preparation
The financial statements of the Group have been prepared and approved by the Directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and in accordance with United Kingdom adopted International Accounting Standards.

The preparation of financial information in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual events may ultimately differ from those estimates.

The financial information set out above does not constitute the Group's statutory accounts for the years ended 30 September 2023 or 2022, but is derived from those accounts. Statutory accounts for 2022 have been delivered to the Registrar of Companies, and those for 2023 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

The accounting policies set out in the notes have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. The financial statements are prepared on the historical cost basis except as disclosed in these accounting policies.

The financial statements are presented in pounds sterling and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

2.1 Going Concern

The Directors have undertaken a thorough review of the Group's ability to continue to trade as a going concern for the period to 31 January 2025 (the 'forecast period'). This review has been undertaken taking into consideration the following matters.

Liquidity
At 30 September 2023, the Group had a robust liquidity position, with cash and available headroom in its banking facilities totalling £103.6 million.

Strong liquidity has been maintained through the first quarter of the year ending 30 September 2024, providing the Group with a good level of cash and available banking facilities for the year ahead.

The Group's revolving credit facility (RCF) is committed and has recently been extended to November 2025 to give flexibility to a renewal given the current market conditions. The total facility was reduced during the year, given the anticipated volume of land acquisitions, and to benefit from lower non-utilisation fees. All financial covenants under this facility were met at 30 September 2023 and are forecast to be met throughout the period to 31 January 2025.

Business Model

Our forward sale business model is capital light. By forward selling the majority of our build to rent (BTR) and purpose built student accommodation (PBSA) developments, we receive payment for the land either at the same time as or shortly after we complete the purchase, and before we commit to any significant development expenditure. Once forward sold, we receive payment for the development works as they progress. By being in control of our development pipeline we are able to ensure that we only commit construction expenditure to developments that are either forward sold or to undertake a modest level of enabling works. In certain circumstances we may decide to continue construction activities beyond the initial enabling phase, without a forward sale agreement in place, but we take this decision based on our available liquidity and can suspend the works should it prove necessary. This greatly limits our exposure to development expenditure which is not covered by cash income.

Sites are normally secured on a subject to satisfactory planning basis, which gives us time to manage the cash requirements and to market them for forward sale. We also take a cautious approach to managing our land acquisition programme to ensure that we have sufficient liquidity available to complete the acquisition of the sites without any new forward sales being secured.

The Fresh business receives a regular contractual monthly fee income from its multiple clients and the short to medium-term risk to its revenue stream is low.

For our Affordable Homes business, which is currently relatively small and only has a few sites in build, we manage our development expenditure so that, other than for infrastructure works, we only commit expenditure where it is supported by a forward sales position. In addition, a significant portion of our largest site has been forward sold such that we will receive payment for development works as they progress.

We also receive rental income from tenants on our leased PBSA assets. The PBSA assets are anticipated to be fully occupied for the 2023/24 academic year. Our business model and approach to cash management therefore provides a high degree of resilience.

Counterparty Risk

The Group's clients are predominantly blue-chip institutional funds, and the risk of default is low. The funds for a forward sold development are normally specifically allocated by the client or backed by committed debt funding.

For forward sold developments, our cash income remains ahead of our development expenditure through the life of the development, such that if we were exposed to a client payment default, we could suspend the works, thereby limiting any cash exposure.

Fresh has many clients and these are mostly institutional funds with low default risk.

Base case cash forecast

We have prepared a base case cash forecast for the forecast period, based on our current business plan and trading assumptions for the year. This is well supported by our forward sold pipeline of three PBSA developments and seven BTR developments for delivery during the period FY24 to FY27, as well as the reserved/exchanged and forward sales for our Affordable Homes business and the contracted income for Fresh. Our currently secured cash flow, derived from our forward sold developments and other contracted income, net of overheads and tax, results in a modest cash utilisation over the forecast period, with the result that our liquidity position is maintained.

In addition to the secured cash flow, the base case forecast assumes a number of new forward sales and further house sales, which if achieved will result in a further strengthening of our liquidity position, after allowing for dividend payments.

Risk Analysis

In addition to the base case forecast, we have considered the possibility of continued disruption to the forward sale market given the market turbulence seen in the UK over the last 12 months. This is our most significant risk as it would greatly limit our ability to achieve any further forward sales.

We have run various model scenarios to assess the possible impact of the above risks, including an extreme downside scenario assuming no further forward sales are achieved.

The cash forecast prepared under this scenario illustrates that adequate liquidity is maintained through the forecast period and the financial covenants under the RCF would still be met.

The minimum gross cash balance under this scenario was £32.4 million (excluding the £10.0 million overdraft). In addition we have reviewed the potential impact on the Group's Tangible Net Worth Covenant of any additional increase in the provision for Building Safety. The headroom on this covenant under the extreme downside scenario would allow for a further four properties to be provided for, assuming an average provision per property of £2.1 million.

We consider the likelihood of events occurring which would exhaust the total cash and available facilities balances remaining to be remote. However, should such events occur, management would be able to implement reductions in discretionary expenditure and consider the sale of the Group's land sites to ensure that the Group's liquidity was maintained.

While there remains sufficient headroom under this scenario for all the financial covenants, a sale of the Group's land sites would enable the repayment of the RCF balance (as the RCF is drawn down against these assets). There would then be no requirement for the covenants to be tested.

Conclusion

Based on the thorough review and robust downside forecasting undertaken, and having not identified any material uncertainties that may cast any significant doubt, the Board is satisfied that the Group will be able to continue to trade for the period to 31 January 2025 and has therefore adopted the going concern basis in preparing the financial statements.

3. Accounting policies

The results for the year have been prepared on a basis consistent with the accounting policies set out in the Watkin Jones plc Annual Report for the year ended 30 September 2023.

4. Building Safety provision

Our contract obligations

In January 2020, following the Grenfell Tower fire in June 2017, the Government issued guidance on the suitability of certain cladding solutions used on high rise residential buildings. The Group subsequently carried out a detailed assessment of its property portfolio.

Taking into account the prevailing Government guidance and legal framework at the time, as well as consultation with building owner clients and technical and legal advice, the assessment encompassed buildings completed in 2008 or later (i.e. within the 12 year contractual period). The assessment identified:

1) Buildings of any height that featured aluminium composite material ('ACM') and
2) Buildings above 18m in height that featured high pressure laminate ('HPL').

The Group identified 15 buildings that featured significant ACM; of these, 13 have been remediated by the Company. The remaining two builds were undertaken by external contractors, are within the contractual period, and benefit from insurance-backed warranties provided by the external contractor and architect. One of these buildings has been remediated and the external contractor retained liability for this.

The Group took an exceptional provision in the year ended 30 September 2020 of £14,800,000 for the remedial costs of these properties, which included contributions agreed with the respective owners.

Further legislation in England
In January 2022 this guidance was withdrawn and in April the Building Safety Act 2022 (the 'BSA') was enacted, with the government announcing its intention to:

i) extend the scope of developers' responsibility to 30 years;
ii) increase the scope by including buildings above 11 metres; and
iii) expand the scope to incorporate life critical safety defects.

In the year ended 30 September 2022, the Group performed a review of buildings above 11 metres developed by the Company over the last 30 years. Industry practice is not to retain records for buildings that are out of contract and therefore we do not have fulsome documentation for buildings that were out of contract. In such cases, the Group undertook a number of procedures to evaluate the risk to the Group. These procedures included a review of the external façade materials, carrying out intrusive surveys where constructive dialogue with property owners had commenced and making enquiries of employees who worked on the relevant construction projects. This review concluded that an exceptional provision of £30,365,000 should be made for these potential costs. This provision was made in relation to 18 properties.

During the year ended 30 September 2023, following the introduction of the secondary legislation that provided greater clarity on the scope and approach of the BSA in relation to leasehold buildings, the Group was formally approached to sign up to the Responsible Actors' Scheme ('RAS') which came into force on 4 July 2023. By signing up to the RAS the Group is required to sign the Developer's Remediation Contract ('the Contract') which requires us to:

- Take responsibility for all necessary work to address life-critical fire safety-defects arising from the design and construction of buildings 11 metres and over in height that we developed or refurbished in England over the 30 years ending on 4 April 2022
- Keep residents in those buildings informed about progress towards meeting this commitment
- Reimburse taxpayers for funding spent on remediating their buildings, i.e. where leaseholders have accessed the Building Safety Fund to remediate their properties

The Group signed the Contract in December 2023.

The Contract is intended to cover leasehold buildings rather than PBSA or BTR, and therefore the significant majority of buildings that the Group has developed over the last 30 years are outside the scope of the contract. There are thirteen leasehold buildings falling within the scope of the RAS, and five of these are included within the provision. One of these properties relates to remediation works that have been undertaken as a result of the building owner accessing the Building Safety Fund. Based on our internal review procedures described above, the provision includes an estimation of works required in relation to buildings identified as requiring remediation.

Under the obligations of the scheme, and where information is available, we will write out to building owners to understand their position regarding those buildings.

Legislation in Wales
In 2023, the Welsh Government's announced a new scheme with developers to tackle fire safety defects in medium highrise residential buildings. The Group has been approached in respect of one property which we have provided for on the basis that certain remedial works are required. In our view, based on the investigative procedures that we have carried out, there are no further remedial works required to other Welsh properties.

Legislation in Scotland
The Housing (Cladding Remediation) (Scotland) Bill was published in November 2023 and has not yet been finalised. It is the Group's expectation that the basis for this Bill will be consistent with the RAS, such that it is intended to cover leasehold buildings. The Group has constructed one leasehold property in Scotland, which remains under contract. In our view, based on the investigative procedures that we have carried out, there is no remedial work required on that property.

Overall landscape
Historically PBSA and BTR properties that are out of contract have been considered to be out of time for claims, although in England there remains uncertainty over how the BSA will be applied in this regard. However, as set out above, the RAS does not specifically apply to PBSA and BTR properties, noting that the overall objective of the government policy was to protect individual leaseholders in the wake of the Grenfell Tower fire.

Since the implementation of the BSA, we have been in contact with government and industry bodies and other housebuilders and developers to confirm that our interpretation of the legislation is consistent with others. We also engaged an independent consultant to assess the scope and cost of our remedial works on relevant properties to ensure that our approach was appropriate.

We will continue to keep abreast of any changes to legislation and guidance, recognising that the approach to building safety continues to evolve.

Impact on financial statements
Provisions are recognised when three criteria are met: 1) the Group has a present obligation as a result of a past event; 2) it is probable that an outflow of resources will be required to settle the obligation; and 3) a reliable estimate can be made of the obligation.

A further net exceptional provision of £35.0 million has been made for these remedial costs in the year ended 30 September 2023 as a result of:

- The introduction of secondary legislation and the evolution of government initiatives during 2023 as set out above which has brought two further properties into the provision;
- Greater access to the various properties which were identified as being at risk, further intrusive surveys conducted on relevant buildings, the receipt of fire safety reports and related cost estimates, alongside further experience of completing the works; these have led to additional costs required compared to initial expectations; and
- The evolution and conclusion of legal proceedings, settlement and contribution agreements with building owners during the year.

This is a highly complex area with significant estimates in respect of the cost of remedial works, the quantum of any legal expenditure associated with the defence of the Group's position in this regard, and the extent of those properties within the scope of the applicable government guidance and legislation, which continue to evolve. All our buildings were signed off by approved inspectors as compliant with the relevant Building Regulations at the time of completion.

The amount provided for these works has been estimated by reference to recent industry experience and external quotes for similar work identified. The investigation of the works required at many of the buildings is at an early stage and therefore it is possible that these estimates may change over time or if government legislation and regulation further evolves.

As a number of other housebuilders and developers have done over the last twelve months, we have included an additional amount of contingency within our provision to reflect further buildings being identified as within the scope of the RAS and for unforeseen remediation costs beyond management's current knowledge. We have also implemented a consistent contingency policy across the properties where work is yet to start.

We expect this cost to be incurred over the next five years, and the provision has been discounted to its present value accordingly. The timing of this expenditure will be dependent on the timely engagement by building owners, revisions to programme under the new BSA Gateways, and the availability of appropriately qualified subcontractors.

We have made progress with negotiating contributions from clients to mitigate our liability in relation to these remedial works and at the balance sheet date have recognised reimbursement assets of £10.9 million (30 September 2022: £nil). These will be recovered over one to five years.

Should the costs associated with these remedial works increase by 10%, the provision required would increase by £3,800,000. Should the discount rate applied to the calculation reduce by 1%, the provision required would increase by £800,000. Further details of the provision are set out in note 11.

Should an additional property be identified which requires remedial works for which the Group is liable, it would be reasonable to estimate the additional cost at £2,100,000, based on the average expected cost of works for properties included within the provision for which the Group will perform remediation works.

5. Segmental reporting

The Group has identified four segments for which it reports under IFRS 8 'Operating Segments'. The following represents the segments that the Group operated in during FY23 and FY22:

a. Student Accommodation – the development of purpose built student accommodation;
b. Build To Rent – the development of build to rent accommodation;
c. Affordable Homes – the development of residential housing; and
d. Accommodation Management – the management of student accommodation and build to rent/private rental sector (PRS) property.

Corporate – revenue from the development of commercial property forming part of mixed-use schemes and other revenue and costs not solely attributable to any one operating segment.

All revenues arise in the UK.

Performance is measured by the Board based on gross profit as reported in the management accounts.

Apart from inventory and work in progress, no other assets or liabilities are analysed into the operating segments.

Year ended 30 September 2023	**Student Accommodation £'000**	**Build To Rent £'000**	**Affordable Homes £'000**	**Accommodation Management £'000**	**Corporate £'000**	**Total £'000**
Revenue	**175,739**	**207,711**	**19,607**	**9,481**	**698**	**413,236**
Segmental gross profit	**11,409**	**19,836**	**1,920**	**5,988**	**1,202**	**40,355**
Impairment of land assets	**—**	**—**	**—**	**—**	**(5,496)**	**(5,496)**
Gross profit	**11,409**	**19,836**	**1,920**	**5,988**	**(4,294)**	**34,859**
Administration expenses	**—**	**—**	**—**	**(5,441)**	**(24,664)**	**(30,105)**
Loss on disposal of PRS assets	**—**	**—**	**—**	**—**	**(4,584)**	**(4,584)**
Exceptional administrative expenses	**—**	**—**	**—**	**—**	**(38,140)**	**(38,140)**
Operating profit	**11,409**	**19,836**	**1,920**	**547**	**(71,682)**	**(37,970)**
Share of loss in joint ventures	**—**	**—**	**—**	**—**	**(13)**	**(13)**
Finance income	**—**	**—**	**—**	**—**	**496**	**496**
Finance costs	**—**	**—**	**—**	**—**	**(3,514)**	**(3,514)**
Exceptional finance costs	**—**	**—**	**—**	**—**	**(1,458)**	**(1,458)**
Profit/(loss) before tax	**11,409**	**19,836**	**1,920**	**547**	**(76,171)**	**(42,459)**
Taxation	**—**	**—**	**—**	**—**	**9,912**	**9,912**
Continuing profit/(loss) for the year	**11,409**	**19,836**	**1,920**	**547**	**(66,259)**	**(32,547)**
Profit for the year attributable to ordinary equity shareholders of the parent						**(32,547)**
Inventory and work in progress	**83,430**	**10,970**	**27,314**	**—**	**1,802**	**123,516**

Year ended 30 September 2022	Student Accommodation £'000	Build To Rent £'000	Affordable Homes £'000	Accommodation Management £'000	Corporate £'000	Total £'000
Revenue	180,037	191,228	14,478	9,072	12,261	407,076
Gross profit	26,353	32,808	1,915	5,909	641	67,626
Administration expenses	—	—	—	(5,788)	(25,407)	(31,195)
Profit on disposal of student leasehold properties	—	—	—	—	18,253	18,253

Exceptional administrative expenses	—	—	—	—	(30,365)	(30,365)
Operating profit	26,353	32,808	1,915	121	(36,878)	24,319
Share of loss in joint ventures	—	—	—	—	(16)	(16)
Finance income	—	—	—	—	72	72
Finance costs	—	—	—	—	(5,982)	(5,982)
Profit/(loss) before tax	26,353	32,808	1,915	121	(42,804)	18,393
Taxation	—	—	—	—	(4,979)	(4,979)
Continuing profit/(loss) for the year	26,353	32,808	1,915	121	(47,783)	13,414
Profit for the year attributable to ordinary equity shareholders of the parent						13,414
Inventory and work in progress	75,840	38,763	29,785	—	2,730	147,188

6. Exceptional costs

	Year ended 30 September 2023 £'000	Year ended 30 September 2022 £'000
Recognised in administrative expenses		
Building Safety provision	**35,000**	30,365
Restructuring costs	**3,140**	—
Total exceptional items recognised in administrative expenses	**38,140**	30,365
Recognised in finance costs		
Unwind of discount rate on Building Safety provision	**1,458**	—
Total exceptional items recognised in finance costs	**1,458**	—
Total exceptional costs	**39,598**	30,365

There have been exceptional items during the year of £35,000,000 (2022: £30,365,000) relating to a further net provision made for Building Safety related costs. The provision made in the prior year has been unwound to its present value, resulting in £1,458,000 of finance costs. Further information on these charges is included in note 4 and note 11.

Action has been taken during the year ended 30 September 2023 to manage the Group's cost base, with exceptional restructuring and redundancy costs of £3,140,000 incurred.

All of the exceptional costs in the year were treated as allowable deductions for corporation tax purposes.

7. Total operating profit

This is stated after charging/(crediting):

	Year ended	Year ended

	30 September 2023 £’000	30 September 2022 £’000
Audit services to the parent company	**100**	100
Audit services to the subsidiaries	**275**	275
Amortisation of intangible assets	**559**	559
Impairment of land assets	**5,496**	—
Depreciation:		
Property, plant and equipment	**697**	747
Investment property (leased)	**4,217**	6,156
Right-of-use assets	**1,474**	949
Profit on disposal of student leasehold properties	**—**	(18,253)
Loss on disposal of PRS assets	**4,584**	—
Loss on disposal of other right-of-use assets	**—**	116
Profit on disposal of property, plant and equipment	**(294)**	(2,783)

8. Income taxes

	Year ended 30 September 2023 £’000	Year ended 30 September 2022 £’000
Current income tax		
UK corporation tax on profits for the year	**—**	2,708
Adjustments in respect of prior periods	**318**	1,133
Foreign taxes	**27**	55
Total current tax	**345**	3,896
Deferred tax		
Origination and reversal of temporary differences	**(9,229)**	808
Adjustments in respect of prior year	**216**	4
Remeasurement of deferred tax for changes in tax rates	**(1,244)**	271
Total deferred tax	**(10,257)**	1,083
Total tax (credit)/expense	**(9,912)**	4,979

Reconciliation of total tax (credit)/expense

	Year ended 30 September 2023 £’000	Year ended 30 September 2022 £’000
(Loss)/profit before tax	**(42,459)**	18,393
(Loss)/profit multiplied by standard rate of corporation tax in the UK of 22% (2022: 19%)	**(9,341)**	3,495
Fixed asset differences	**40**	(7)
Expenses not deductible	**86**	34
Income not taxable	**(36)**	33
Remeasurement of deferred tax for changes in tax rates	**(1,244)**	271
Other differences	**178**	45
Differences to foreign tax rates	**(20)**	(29)

Adjustments in respect of prior periods	**318**	1,133
Prior year adjustment to deferred tax	**107**	4
At the effective rate of tax of 23.3% (2022: 27.1%)	**(9,912)**	4,979
Income tax (credit)/expense reported in the statement of profit or loss	**(9,912)**	4,979

As a result of the Finance Act 2021, the rate of UK corporation tax increased to 25% from 6 April 2023. The deferred tax assets and liabilities held by the Group at the start of the current year have been revalued to reflect this increase. The deferred tax asset arising from losses in the period is expected to be fully utilised in the short to medium term.

9. Earnings per share

The following table reflects the income and share data used in the basic and diluted EPS computations:

	Year ended 30 September 2023 £'000	Year ended 30 September 2022 £'000
(Loss)/profit for the year attributable to ordinary equity holders of the parent	**(32,547)**	13,414
Add back exceptional costs for the year (note 6)	**39,598**	30,365
Less corporation tax benefit from exceptional costs for the year	**(8,716)**	(5,769)
Adjusted (loss)/profit for the year attributable to ordinary equity holders of the parent (excluding exceptional items after tax)	**(1,665)**	38,010

	Year ended 30 September 2023 Number of shares	Year ended 30 September 2022 Number of shares
Weighted average number of ordinary shares for basic earnings per share	**256,434,903**	256,385,882
Adjustment for the effects of dilutive potential ordinary shares	**—**	1,338,930
Weighted average number for diluted earnings per share	**256,434,903**	257,724,812

	Year ended 30 September 2023 Pence	Year ended 30 September 2022 Pence
Basic earnings per share		
Basic (loss)/profit for the year attributable to ordinary equity holders of the parent	**(12.692)**	5.232
Adjusted basic earnings per share (excluding exceptional items after tax)		
Adjusted (loss)/profit for the year attributable to ordinary equity holders of the parent	**(0.649)**	14.825
Diluted earnings per share		
Basic (loss)/profit for the year attributable to diluted equity holders of the parent	**(12.692)**	5.205
Adjusted diluted earnings per share (excluding exceptional items after tax)		
Adjusted (loss)/profit for the year attributable to diluted equity holders of the parent	**(0.649)**	14.748

10. Dividends

Accounting policy

Dividends are recognised through equity when approved by the parent's shareholders or on payment, whichever is earlier.

	Year ended 30 September 2023 £'000	Year ended 30 September 2022 £'000
Final dividend paid in February 2023 of 4.50 pence (February 2022: 5.6 pence)	**11,539**	14,345
Interim dividend paid in June 2023 of 1.40 pence (June 2022: 2.9 pence)	**3,590**	7,436
	15,129	21,781

An interim dividend in relation to the year ended 30 September 2023 of 1.40 pence per ordinary share was paid on 30 June 2023 (2022: 2.9 pence per ordinary share).

The final dividend proposed for the year ended 30 September 2023 is nil pence per ordinary share (2022: 4.5 pence per ordinary share). As such, no liability (2022: liability of £11,539,000) has been recognised at that date. At 30 September 2023, the Company had distributable reserves available of £41,115,000 (30 September 2022: £56,058,000).

11. Provisions

Building Safety provision

	Provision £'000	**Reimbursement asset £'000**	**Total £'000**
At 1 October 2021	**9,399**	**—**	**9,399**
Arising during year	**30,365**	**—**	**30,365**
Utilised	**(6,316)**	**—**	**(6,316)**
At 1 October 2022	**33,448**	**—**	**33,448**
Arising during year	**45,865**	**(10,865)**	**35,000**
Utilised	**(15,177)**	**—**	**(15,177)**
Unwind of discount rate	**1,458**	**—**	**1,458**
At 30 September 2023	**65,594**	**(10,865)**	**54,729**

The balance can be classified as follows:

Year ended 30 September 2023	**Provision**	**Reimbursement asset**	**Total**
Current	**24,457**	**(6,858)**	**17,599**
Non-current	**41,137**	**(4,007)**	**37,131**
Total	**65,594**	**(10,865)**	**54,729**

Year ended 30 September 2022	Provision	Reimbursement asset	Total
Current	7,713	—	7,713
Non-current	25,735	—	25,735
Total	33,448	—	33,448

A provision of £33,448,000 was held at 30 September 2022 for the Group's anticipated contribution towards the cost of building safety remedial works.

A further net increase in provision of £35,000,000 has been made during the year ended 30 September 2023 for building safety remediation costs, comprising an increase in cost provision of £45,865,000 offset by a corresponding reimbursement asset of £10,865,000, reflecting customer contributions to these remedial works which have been contractually agreed during the year. Of this reimbursement asset, £6,973,000 was included in the net provision disclosed at 1 October 2022 which represented the best estimate of the Group's net contribution to remediation costs.

The judgements and estimates surrounding this provision and corresponding reimbursement assets are set out in note 4.

The net provision at 30 September 2023 amounts to £54,729,000, of which £17,599,000 is expected to be incurred in the year ending 30 September 2024 and £37,131,000 is expected to be incurred between 1 October 2024 and 30 September 2027. The provision has been discounted to its present value accordingly, at a risk-free rate of 4.60% based on UK five-year gilt yields (2022: 4.36%).

12. Reconciliation of profit before tax to net cash flows from operating activities

	Year ended 30 September 2023 £'000	Year ended 30 September 2022 £'000
(Loss)/profit before tax	**(42,459)**	18,393
Depreciation of leased investment properties and right-of-use assets	**5,691**	7,105
Depreciation of plant and equipment	**697**	747
Amortisation of intangible assets	**559**	559
Profit on disposal of right-of-use assets	**—**	(18,137)
Profit on disposal of property, plant and equipment	**(294)**	(2,783)
Loss on disposal of operational PRS assets	**4,584**	—
Finance income	**(496)**	(72)
Finance costs	**4,972**	5,982
Share of loss in joint ventures	**13**	16
Decrease/(increase) in inventory and work in progress	**4,634**	(19,525)
Increase in contract assets	**(15,547)**	(37,011)
Increase in trade and other receivables	**(6,476)**	(430)
(Decrease)/increase in contract liabilities	**(3,583)**	2,207
Increase in reimbursement assets	**(10,865)**	—
Increase/(decrease) in trade and other payables	**9,600**	(901)
Increase in provisions	**30,688**	24,049
Increase in share-based payment reserve	**1,067**	209
Net cash outflow from operating activities	**(17,215)**	(19,592)

Major non-cash transactions
There were no major non-cash transactions during the period.

13. Analysis of net cash/(debt)

30 September 2023	At beginning of year £'000	Cash flow £'000	Other movements £'000	At end of year £'000
Cash at bank and in hand	**110,841**	**(38,410)**	**—**	**72,431**
Other interest-bearing loans	**—**	**—**	**—**	**—**
Bank loans	**(28,288)**	**(42)**	**(200)**	**(28,530)**
Net cash before deducting lease liabilities	**82,553**	**(38,452)**	**(200)**	**43,901**
Lease liabilities	**(49,099)**	**6,806**	**(2,902)**	**(45,195)**
Net cash/(debt)	**33,454**	**(31,646)**	**(3,102)**	**(1,294)**

30 September 2022	At beginning of year £'000	Cash flow £'000	Other movements £'000	At end of year £'000
Cash at bank and in hand	136,293	(25,452)	—	110,841
Other interest-bearing loans	(389)	389	—	—
Bank loans	(11,572)	(16,516)	(200)	(28,288)
Net cash before deducting lease liabilities	124,332	(41,579)	(200)	82,553
Lease liabilities	(129,252)	4,717	75,436	(49,099)
Net debt/(cash)	(4,920)	(36,862)	75,236	33,454

Cash at bank and in hand as at 30 September 2023 includes £53,000 of cash deposited by the Group in an escrow account in connection with a development in progress, access to which is contingent upon the completion of certain development works (30 September 2022: £53,000). Non-cash movements relate to the acquisition of property, plant and equipment under other interest-bearing loans, the amortisation of bank loan arrangement fees and changes to the value of lease liabilities as a result of leases entered into or terminated in the period or due to movements in the rent inflation rates assumed.

14. Annual report

Copies of this announcement are available from the Company at 12 Soho Square, London W1D 3QF. The Group's annual report for the year ended 30 September 2023 will be posted to shareholders shortly and will be available on our website at www.watkinjonesplc.com.